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The Business of Terror: Al-Qaeda as a Multi-National Corporation

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> *So I told the American people we will direct every resource at our command to win the war against terrorists: every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding, turn them against each other, rout them out of their safe hiding places and bring them to justice.*—President George W. Bush, September 24, 2001[1]

According to Robert Gilpin, a multi-national corporation (MNC) can be defined as, "a firm that owns and manages economic units in two or more countries."[2] In many ways, Al-Qaeda, and particularly its leader Usama bin Laden (henceforth UBL), reflect this concept of an MNC, albeit this structure pursues political goals rather than economic ones. The organization consists of multi-national actors who operate in 40-50 countries world-wide. While the "headquarters" provides broad direction and support, local organizations are tailored to perceived local goals, often using local "employees." Overall, al-Qaeda must contend with office politics, operations, budgets, and even embezzlement by employees. Moreover, its leadership normally resorts to many aspects of foreign direct investment and joint ventures as part of the day to day organizational management. This is due to the economic and business backgrounds of UBL and many of his cohorts.

Al-Qaeda is a remarkably complex structure, requiring revenues in the millions of dollars to keep it afloat and to provide for employees and operations spanning the globe. As US

Treasury Director of the Executive Office for Terrorist Financing and the Financial Crime Daniel Glaser has pointed out, "They [terrorist organizations] must pay for the security of "safe havens," financial support for families of "martyrs," recruitment, indoctrination, logistical support, and personnel training. This doesn't even get into the costs of ostensibly humanitarian efforts—charitable organizations, medical clinics and schools—that are either created as fronts for terrorism or to win support and recruits. Finally, there is the cost of weapons."[3] No one is certain how many members al-Qaeda has. Estimates are usually based on an approximation of how many trained in al-Qaeda camps in Afghanistan and Sudan, somewhere between 20,000 and 60,000. But as no one is even certain how many camps have been operated by al-Qaeda, even this estimate is suspect.[4] Moreover, a new cadre of al-Qaeda members may have never trained in any known camps. For example, those involved in the Madrid bombings in March 2004 were relatively well established in their communities and none had ever been to Afghanistan.[5] To accomplish their operations, at its height, al-Qaeda's global terrorist empire required $35 million in funding per year to operate.[6] Even now, with much of its infrastructure destroyed and its leadership on the run, it probably requires $5-10 million per year. Meeting these needs requires some very savvy businessmen.

The proposed business model points to numerous areas in which to focus on bringing down this MNC: its leadership, employees, inputs, processes, and outputs. While all of these must be targeted to the extent possible, destroying the financing of the organization is the best way to minimize al-Qaeda's operational capability in the short to medium term. The best place to target al-Qaeda's finances are the bottlenecks in which the money is moved through the organization—the place where money is actually laundered and delivered to those who need it.

To do this will require greater US inter-agency coordination, greater international cooperation, and better intelligence.

Usama bin Laden as a Business-Oriented CEO

According to Bruce Hoffman, "the closest organizational relative to al-Qaeda is perhaps a private multinational corporation. And bin Laden himself is perhaps best viewed as a terrorist CEO."[7] Mr. Hoffman continues, "Benefiting from Usama bin Laden's considerable experience in business, the organization is said to be structured like a modern corporation, reflective of management concepts of the early 1990s, including bottom-up and top-down networks, a common "mission statement," and entrepreneurial thinking even a the lowest levels. This makes it extraordinarily flexible, and many believe, able to survive serious blows."[8] He adds, "He has applied business administration and modern management techniques learned both at the university and in the family's construction business to the running of a transnational terrorist organization."[9]

Both business and Islamic piety were an essential part of UBL's life growing up. UBL's father Mohammed bin Awad bin Laden, emigrated from the impoverished Hadramat region of Yemen to Jiddah, Saudi Arabia around 1945. Given the Yemeni region's harsh climate, its people have been known for two occupations in particular: trade and construction. Though starting out as a porter, Mohamed later set up a construction business which, in the 1950s, underbid other contractors to work on the Saudi royal family's palaces. In this way, he became close to many royal family members, and in the 1960s, Mohammed was even the Saudi Minister of Public Works for a while.[10] Also in the 1960s, Mohammed's construction company received

the prestigious contract to help rebuild the al-Aqsa mosque in Jerusalem as well as the holy sites of Mecca and Medina.

UBL grew up in this construction and business-oriented family. He graduated from Saudi Arabia's King Abdul Aziz University in 1981 with a degree in economics and public administration. It was at the university that UBL first associated with the Muslim Brotherhood and became increasingly religious.[11] Upon graduation, he worked in the family construction business.[12] In the early 1980s, right after the Soviet invasion of Afghanistan, UBL began supporting the Afghan mujahideen, bringing in tons of construction machinery to Afghanistan for trench and road building and also set up a mine sweeping operation.[13] With his former university professor, Abdullah Azzam, he operated the Maktab al-Khadamat, or Services Office, in Peshawar, Pakistan to funnel Arab money and fighters to fight the Soviets.[14] It was here that UBL built the financial and organizational underpinnings of al-Qaeda with the original goal of channeling resources to the Afghan mujahideen.[15]

UBL designed al-Qaeda's funding to be deliberately decentralized, compartmentalized, flexible, and diverse. Thus, there is not one single pot of al-Qaeda money nor one money laundering source which could be compromised to the point of destroying the organization.[16] UBL provides financing to al-Qaeda via a number of sources. Some of this financing comes from money UBL inherited, estimated between $35 and $250 million.[17] Another source is through UBL's sizable investments worldwide. Al-Qaeda's terrorist activities are paid for through a variety of sources from drug smuggling to identity fraud to front companies to the smuggling of precious stones.

Mixing terrorism and business has been the hallmark of UBL. In the past, a good deal of his financing came from the estimated 80 companies he owned around the world: in fact, the

goal of UBL's investments has been to provide financing to al-Qaeda's operations.[18] Meanwhile, these same businesses provided bases for training camps and a means of acquiring and distributing funds. Money is believed to have come via bulk cash which flew into Cairo, camel caravans from Upper Egypt through Sudan, and even by a boat he owned from Port Sudan.[19]

Remarkably, the height of UBL's business empire existed when he lived in Sudan. While there, he owned the local most profitable businesses, including construction, manufacturing, currency trading, import-export, and agriculture. The profits generated from these businesses were then funneled into al-Qaeda to support its operations.[20] One of these companies was Wadi al-Aqiq, a trading company with a dispensation from the Sudanese government to ship anywhere. Another was al-Hijra Construction, which was jointly owned with the Sudanese government and employed more than 600 people building bridges and roads: indeed, his companies built the 800 km road from Khartoum to the Red Sea port of Port Sudan.[21] The ath-Themar agricultural company had 4000 employees working on its one million acre ad-Damazine farms manufacturing sesame and peanut oil. Taba Investment, Ltd. "secured a near monopoly over Sudan's major agricultural exports of gum, corn, sunflower, and sesame products,"[22] along with trading in sugar, bananas, canned goods, and soap. Other companies included fruit companies, a trucking company, a tannery, bakery, and furniture-making. He even created his own bank, the ash-Shamal Islamic Bank. UBL supposedly sank $50 million of his own money into this bank. Allegedly, most of the thousands of employees of these companies had no idea of what al-Qaeda even was; only al-Qaeda members knew of its existence and that it controlled this financial empire.[23] However, it is estimated UBL lost as much as $150 million when he was forced to leave Sudan.[24]

Al-Qaeda as a Multi-National Firm

MNCs have a number of characteristics which apply to the al-Qaeda organization. MNCs tend to be oligopolistic in ownership with management, production, and sales extended in several countries and they are usually comprised of a head office and a cluster of subsidiaries.[25] Within al-Qaeda, UBL, along with his shura (consultative council) make executive decisions for the group. Below the shura, there are councils responsible for military affairs, business interests, fatwas, and media, though the efficacy of these committees today is unknown. Al-Qaeda has its hands in all manner of financial actions: non-governmental organizations, "legitimate" businesses, and even banking. Interestingly, one of UBL's aliases is "The Director." Terminology for the group is often in communicated in business terms, as in a document about a Yemeni al-Qaeda cell discovered in Kabul which noted, "The general management shall be consulted on issues related to joining and firing from the company, the general strategy and company name."[26]

Al-Qaeda has become the master of the MNC. It operates in 40-50 countries, including Egypt, Somalia, Bosnia, Croatia, Tanzania, Kashmir, Chechnya, Uganda, Ivory Coast, Togo, and Ghana. The group uses computers extensively, and during the 1990s relied on satellite communications. Indeed, many al-Qaeda leaders could be considered "cosmocrats," a breed of world citizen who feels as comfortable in his hometown as he does in New York, Hong Kong, or a host of other areas.[27] This has allowed al-Qaeda to move away from a more traditional model of the state-sponsored terrorist organization. It is now free from any government control to maintain its own organizational infrastructure, training programs, and operations, and because of

this, it has tended to operate from failed or dysfunctional states. As a matter of fact, rather than being a state-sponsored terrorist organization, al-Qaeda has been a *state-sponsoring* organization, in that it propped up governments in Sudan and Afghanistan.[28]

Not only has UBL demonstrated significant business expertise, but core UBL followers also showed significant technical, engineering, or business acumen. Aywan Zawahiri, UBL's top aide and often considered the real "brains" of al-Qaeda, is a physician. His former media advisor in London was a Saudi entrepreneur who worked in an import-export business, while his military advisor had worked as a computer network specialist in California. Egyptian Rifa Ahmed Taha, a cosignatory to the 1998 fatwa, is an accountant and Mamdouh Mahmud Salim, another top al-Qaeda operative, studied electrical engineering.[29] It is therefore no surprise that a business model is used for the al-Qaeda organization.

Just like its terrorist actions, al-Qaeda's financial operations span the globe and are remarkably complex. UBL's investment portfolio reportedly includes investments in Mauritius, Singapore, Malaysia, the Philippines, and Panama plus real estate in Europe and elsewhere. Of course, such assets are reportedly held in the names of intermediaries.[30] Al-Qaeda uses charities, such as the recently shut down Benevolence International Foundation, an Illinois-based charity located in Bosnia-Herzegovina, run by a Syrian holding both US and Bosnian citizenship. The charity allegedly included everything from running an orphanage in Azerbaijan and a tuberculosis hospital in Tajikistan to assisting in the attempted acquisition of uranium and providing cash for the 1998 bombing of two American embassies in Africa.[31] Al-Qaeda even reportedly deals in "blood diamonds" from the conflict in Sierra Leone. These would be smuggled through Liberia using a Senegalese rebel, possibly based in Burkino Faso, as a middle

man between the organization and Sierra Leone's Revolutionary United Front (RUF).[32] The diamonds would then make their way to Europe.[33]

Al-Qaeda uses its businesses and other economic assets to do more than just bring money into the organization. Such enterprises also become key cover for operations and lines of communication. For example, in the early 1990s, a plane loaded with sugar flew to Afghanistan, returning to Sudan loaded with guns and rockets.[34] In another instance, Mohammed Atef (now deceased), a key al-Qaeda operative, moved to Kenya and set up a business involving a large boat. This established a maritime line of communication for Al-Qaeda in the region and became the economic mainstay for the Mombasa cell.[35]

Al-Qaeda has also been particularly adept at manipulating the international banking system. UBL once remarked to a Pakistani journalist that his financial backers "are as aware of the cracks inside the Western financial system as they are of the lines in their hands."[36] Al-Qaeda used the international financial banking systems regularly, and millions of dollars in accounts known to be connected with al-Qaeda have been frozen. However, al-Qaeda understands the limits coming from the regulation of the banking business. The organization hence utilizes the regional banking systems of the Middle East, including the United Arab Emirates, Kuwait, Bahrain, and Lebanon, as they are notoriously under regulated. While in Afghanistan, Pakistani banks were frequently used for the same reason. Al-Qaeda also appears to resort frequently to offshore banking services known for their strict bank secrecy, especially those in Liechtenstein and the Bahamas. Additionally, even Islamic banking institutions were not immune to al-Qaeda. These banks, designed to abide by sharia (Islamic) law usually have a great degree of autonomy and are known to commingle the funds of many depositors and place them in group investments, contributing to the anonymity of the accounts. Finally, al-Qaeda extensively uses the hawala

system of alternative banking, generally centered in Dubai, which is also known for being unregulated, anonymous, and very efficient.[37]

Some terrorist organizations even found and fund their own banks. One is the aforementioned ash-Shamal bank in Sudan, started in large part by UBL. Another example is Bank at-Taqwa, founded in 1988 with significant backing by the Egyptian Muslim Brotherhood and known to finance and provide lines of credit to such groups as Algeria's Armed Islamic Group and al-Qaeda. At-Taqwa, along with a bank named Akida Bank, have been run at various times by two businessmen associated with financing al-Qaeda: Youssef Mustafa Nada and Ahmed Idris Nasreddin. Both at-Taqwa and Akida banks were shell banks, licensed and sharing an address in the Bahamas but with no physical presence there.[38] What makes Bank at-Taqwa so unique is that it does not need the patronage of other groups for the bank to operate—it functions entirely on its own and avoids the legal financial community. It reportedly has branches and other activities in countries including Panama and Kuwait, and exists specifically so that its clientele can avoid legal banking regulations such as the filing of Suspicious Activity Reports.[39]

The non-governmental organizations founded or influenced by al-Qaeda also provide crucial capabilities. For instance, by giving al-Qaeda operatives jobs in NGO offices worldwide, they help create the infrastructure necessary to plan and engage in terrorist attacks. Most notably, they provide a shipping address, housing, identity cards, and a recognized reason to be in that particular location.[40] They also provide bank accounts which can be accessed to move or acquire needed cash. As one US official put it, "Charities are the best cover. They do good works with one hand and provide money and cover for terrorists with the other hand."[41]

Al-Qaeda's investments demonstrate its understanding of comparative advantage in the global marketplace. For example, heavy equipment was generally bought from the Czech

Republic, Hungary, and Russia where prices were low. Cyprus was used to sell produce from UBL farms because it was an easy entry point into the lucrative European market and had a "friendly" banking system which asked few questions.[42]

Al-Qaeda also uses locations for their comparative advantage in certain areas. One increasingly important region for al-Qaeda operations has been Europe. Civil liberties and human rights legislation there is more stringent, and thus more favorable, for use by al-Qaeda. Moreover, the continent already has a large and growing Islamic population into which they can blend and recruit. Finally, Europe provides an ideal location for the technologically advanced skills they need to conduct operations worldwide.[43]

Just like any MNC, al-Qaeda's organizations have had their financial difficulties. In the 1990s, al-Qaeda reportedly suffered cash flow problems due to the strong dollar, particularly compared to the weak Sudanese pound. UBL had to cut costs by cutting wages. This created tensions within the jihadist groups under the al-Qaeda umbrella. It became so bad that at one point, he is quoted as saying to his troops, "Our agenda is bigger than business. We [are] not going to make [profitable] business here [sic], but we need to the help the government and the government [to] help our group, and this is our purpose."[44]

Al-Qaeda as a Joint Venture

A principle objective of an MNC is to secure the least costly production of goods on the world market. One primary way this is accomplished is through direct investment. Direct investment "tends to be sector-specific and is usually based on the existence of some competitive advantage over local firms, advantages that the corporation wishes to exploit or preserve."[45]

Foreign direct investment has become more feasible due to compression of space and time via improvements in transportation, communications, and favorable government policies.[46]

A subset of FDI is the joint venture; rather than wholly owned subsidiaries, companies act more as allies than as competitors. The companies combine productive technology, global marketing, and labor economies of scale to create the greatest efficiency.[47] UBL also tends to act like a joint venture capitalist. He solicits ideas from below, encourages the most creative and feasible of them, and provides funding for those he finds most promising. This is particularly true of attacks launched more on the "periphery" of the Islamic world, as in the case of the episodes of violence promoted by the Indonesian group Jemaah Islamiyah in Bali in October 2002 and Jakarta in 2003, or by the Islamic Great Eastern Raiders Front in Turkey in 2003.[48] In a 1995 briefing by CIA officers at the White House, UBL was described as the "Ford Foundation of Sunni extremism. Aspiring terrorists, the analysts said, would approach him with proposals. Bin Laden wrote checks if he found the projects worthy."[49] Don Van Natta, Jr. compares a terrorist leader to a movie mogul, "a man with the power to greenlight projects pitched to him, who has final veto power over content or timing, but often little to do with the project's actual creation. His most important contribution is the money."[50]

Just as with many multinational corporations, al-Qaeda has worked to create a flatter, networked structure.[51] Van Natta, Jr. points out, "Terrorism can be viewed as a warped mirror image of the new economy. In that financial structure, corporate chieftains manage lean, trimmed-down firms, bringing in consultants and freelances to perform specific jobs. The specialists work as a team to complete an assignment, then move on to other jobs, often for other companies."[52]

Nevertheless, there are aspects of the organization that reflect a more traditional business model, particularly when it comes to leadership. First, in some of the most high-visibility attacks, UBL has been much more involved in defining goals, issuing orders and ensuring implementation. The 9/11 attacks, the USS Cole, and African Embassy bombings are examples of these.[53] Second, al-Qaeda displays a corporate succession plan—as one leader is captured, killed, or incommunicado, another leader steps in to take his place.[54]

The al-Qaeda organization is amazingly flexible—it has no single modus operandi. As Brian Jenkins notes, "The enemies of today are dynamic, unpredictable, diverse, fluid, networked, and constantly evolving."[55] Part of this flexibility comes from the bi-polar personality of al-Qaeda, which is both an organization and an emerging ideology. While many work in UBL's chain of command, others are simply part of the looser network in which the common link is respect for UBL and his ideas.[56] Former deputy director of the State Department's office of counterterrorism has compared al-Qaeda to Amway in that it relies on a loose-knit organization of workers to get the job done. "Bin Laden provides the vision, but basically the members have to go out there and pull their own weight."[57]

This flexibility is what enables the continued existence of the organization, in spite of bearing the full brunt of the Global War on Terrorism. When one aspect of the operation appears vulnerable, al-Qaeda is extremely adept at switching its modus operandi. For instance, when the organization senses one geographic location is about to be compromised, it uses its geographically diffuse structure to move the operations to a safer venue. If US Internal Revenue Service (IRS) investigators begin to look closely at a particular charity, the organization may move to another state and change the charity's name. If one commodity used to move resources

is under the microscope by law enforcement agents, terrorists will switch to another.[58] This amoeba-like existence is the key to the organization's survival.

A new generation of al-Qaeda is likely to be even more enigmatic. The "New Guard" sees UBL as more inspiration than CEO. This new guard includes Jordanian Abu Musa Zarqawi, the alleged al-Qaeda mastermind in Iraq and Saudi-born Abu Walid, who has taken the lead in the rebel movement in Chechnya. This group is believed to be better educated, more computer savvy and at least as religiously motivated as the first al-Qaeda generation.[59] This will make the future al-Qaeda even more difficult to predict and control.

Al-Qaeda is also relying more heavily on its "franchises" around the world. Some of these include the Moro Liberation Front in the Philippines, Jemaah Islamiah in Indonesia, al-Ansar Mujahidin in Chechnya and the Harakat ul-Mujahidin in Kashmir. Experts debate whether these connections are a sign of weakness or strength in al-Qaeda. Some see them as a strength, in that groups formally focused on local issues have now converged with al-Qaeda's anti-US, anti-Western rhetoric. However, some others hold this reliance as demonstrating weakness in that al-Qaeda can no longer operate on its own.[60] Only time, and additional intelligence, will provide the answers.

Al-Qaeda's Monetary Distribution System

Al-Qaeda being now more decentralized, it no longer supports a number of training camps nor is it propping up entire governments. Thus, it probably needs far less money than it did before. David Aufhauser, the Treasury Department's general counsel, has testified that

where al-Qaeda used to need about $35 million annually, it is probably down to $5-10 million per year.[61]

As far as financing operations, al-Qaeda generally proceeds in two ways. First, seed money and expertise is provided by the organization's leadership. This is particularly true for the larger, more expensive operations, such as the 9/11 attacks which cost $200,000-$500,000. However, especially in the case of less expensive actions, small cells may be self-financing, using front companies, credit card scams, identity theft, or any other means to make the money they need.[62] In many cases, funding may be a hybrid of central funding along with augmentation from the local terrorist cells' assets.

Small, self-financing cells are most difficult to crack in that they operate small time enterprises to finance their operations. However, these groups and their crimes are often quite localized; they may be cracked with more traditional, local law enforcement. In this case, intelligence and trends provided by national governments to local law enforcement can be particularly effective.

At any rate, to minimize the overall al-Qaeda operation will require keen intelligence and international support. In this field, there are many ways to attack al-Qaeda, all of which have been used to some extent or another. For the most part, leadership has been targeted, and terrorist cells pursued and, once discovered, physically eliminated. Also, efforts have been made to begin to address grievances which make individuals more likely to join groups like al-Qaeda in the first place, although this constitutes a longer term solution. All of these efforts are noble and should aggressively continue. However, much more needs to be done to destroy the funding mechanisms which allow the organization as a whole to function and operate. To do so, one must look at the primary means in which al-Qaeda moves money and items of value from its

sources and turns them into purchasing power for those resources needed to conduct terror operations and propaganda campaigns.

Money laundering is defined under US law as "the movement of illicit cash or cash equivalent proceeds into, out of, or through the United States financial institutions."[63] Any type of criminal group, including terrorists, must hide the movement of cash or its equivalent, especially if that money is to be used for illegal operations. The process of money laundering generally takes place in three phases. The first stage is placement, in which a person adept at locating loopholes in financial systems moves the money into the international financial system. Frequently this is done via offshore accounts. Second comes what is called layering, in which the funds are redistributed to hide their origins and make them appear legitimate. In the US, this is often done by making a number of financial transactions below the $10,000 limit, which generates a Currency Transaction Report. The third step is integration, which is hiding the funds through legitimate-appearing transactions such as investing in legitimate businesses or buying real estate.[64] Al-Qaeda is proficient at all three stages.

There appear to be five primary ways in which al-Qaeda moves money and items of monetary value from where they are collected to those elements in the organization that need them for operations. Such avenues are the international banking system, the informal banking sector such as halawa, "offshore" accounts, bulk cash shipments, and commodities. Each of these money laundering systems can be considerably impacted, thereby significantly minimizing al-Qaeda's capabilities to finance their operations. As these money laundering schemes are common to all criminal enterprises, a side advantage would be the overall detriment to most international criminal syndicates, whether drug dealers, human traffickers, or illegal arms merchants.

There are still plenty of sources of money available to al-Qaeda. For example, despite the crackdown on charities, many are still operational, and some originally thought to have been shut down appear to be back in business. Al Haramain is still active in Indonesia and the Ar-Rashid trust still operates under new names in Pakistan.[65] Moreover, reports are that the "Jidda Merchants," seven members of an informal group living in Jidda, Saudi Arabia who are friends of UBL's and helped bankroll his operation, still operate their substantial business empires. In the past, these groups helped run a web of bank accounts, front companies and relief organizations for al-Qaeda. At least three members of the group profess their innocence.[66]

Logistically, terrorists have their greatest difficulty laundering money in the United States and Europe due to bank reporting requirements.[67] Therefore, al-Qaeda must find ways to distribute large amounts of money in small denominations, or ensure that the bank will not file a suspicious activity report. One way al-Qaeda has successfully accomplished this is by using a mixture of Western Banks, Islamic banks, and at times, banks owned by UBL or his associates. Before the US shut down its operations, al-Barakaat, a Somali-based financial conglomerate with close ties to al-Qaeda, used to wire $500 million in profits worldwide annually through its central money exchange office in Dubai, United Arab Emirates. Allegedly, al-Qaeda would receive a 5% cut of these profits, or $25 million from this source alone.[68] Though the company is essentially out of business, some US counterterrorism officials believe the money pipeline still operates.[69]

Al-Qaeda also continues to use bulk cash shipments. Human and animal couriers reportedly still move large volumes of cash.[70] The cash, along with other commodities, generally follows long-established smuggling routes of drug traffickers, arms dealers, and the like. Particularly in the developing world, given the poorly supervised banking systems, moving

large quantities of cash generally do not elicit much suspicion and is completely anonymous.[71] For example, when Saudi police raided a terrorists' safe house in Riyadh in May 2003, among the 830 pounds of explosives and 55 hand grenades they also found tens of thousands of American dollars and Saudi riyals stuffed in duffel bags and piled on closet floors. Despite the confiscation of the pile of cash, the terrorists still had sufficient funds to organize and execute other terrorist attacks in Saudi Arabia.[72]

However, large quantities of bulk cash are difficult to conceal, and if the courier is caught, this could lead investigators to begin to unravel that aspect of the organization. Even before the 9/11 attacks,[73] al-Qaeda probably began shifting money away from institution-based transfer systems to more practical and harder to detect systems.[74] As a result, terrorists have been shifting tactics, instead buying jewelry, real estate, stocks and bonds, vehicles, furniture, antiques, or any other expensive items,[75] which will maintain their value and liquidity.[76] These commodities are then converted to cash only as needed.[77] Gold is probably one of the most frequently used items for smuggling. It can be deposited in an account without a transaction report being generated, it can be melted into a variety of forms and it is untraceable and easily exchanged on the gold market, particularly in Dubai, the world's hub of the informal money sector.[78]

Offshore banking systems are particularly susceptible to use by terrorist organizations. Countries such as the Cayman Islands, Antigua and Barbuda, Bahrain, Dominica, Grenada, Liechtenstein, and the Seychelles are known for their strict bank secrecy laws which criminalize the release of customer information, prohibit cooperation with international law enforcement and license banks with neither personnel nor a physical presence in the country. The United Nations International Drug Control Program estimates that approximately one-half of the world's money

flows through offshore banks.[79] From these, terrorists can then move money into the legitimate international banking system.[80]

Furthermore, al-Qaeda continues to evaluate countries and cities they see as "soft spots," with little scrutiny over front companies, charities, relief organizations or banks.[81] Officials suspect terrorists have found means to move money along routes that are virtually undetectable. Matthew Levitt, a former FBI agent who is now a senior fellow with the Washington Institute for Near East Policy has stated, "It's almost impossible to identify every trick that terrorists have or could come up with in their playbook."[82]

Current US Counterterrorism Financing Actions

Counterterrorism financing operations can be divided into two categories. The first is tactical action, where the goal is to disrupt individual financial nodes of terrorist organizations. The second is strategic action, geared towards changing the environment within which terrorist raise and move funds.[83] While the United States have worked aggressively in the tactical realm, many experts argue it lacks making strategic engagement a priority.

The United States began cracking down on terrorism financing long before 9/11. The Antiterrorism and Effective Death Penalty Act of 1996 explicitly banned fundraising for groups who support terrorism.[84] Executive Order (EO) 12947, signed in January 2995, blocks all US property of organizations that have committed or pose a significant risk of committing violent acts to disrupt the Middle East Peace Process, and blocks all US persons from conducting transactions with these groups. EO 12947 was amended with EO 13099 in August 1998 to include UBL and organizations affiliated with him.

After 9/11, President Bush's September 2001 EO 13224 blocked all property of foreign individuals, groups and entities designated as committing or posing a significant threat of committing terrorist acts, or those supporting terrorism. Originally, 27 organizations and individuals were designated, and that list has since grown to 361.[85]

The USA PATRIOT Act[86] strengthened prior anti-terrorism and banking laws in a number of ways. It required securities brokers-dealers to file suspicious activity reports (SARs) and set stricter rules against money laundering safe havens. To improve intelligence, it permitted the sharing of Bank Secrecy Act material with intelligence agencies and allowed greater government access to consumer financial information if the inquiry relates to international terrorism. Finally, Section 212 included a new category of terrorist organization: "that is a group of two or more individuals, whether organized or not, that engages in the commission of terrorist acts." This provided law enforcement the flexibility to deal with individual al-Qaeda cells, which often consist of no more than 3-4 members. The USA PATRIOT Act in particular has given the US government tools to take more strategic action, but has unfortunately met with only mixed success, due to bureaucratic infighting and a lack of resources.

Currently, there is a seven-part government strategy to attack terrorist networks to prevent the long and short-term effects of terrorist financing. These are:

1. Targeting intelligence gathering
2. Freezing of terrorist-related assets
3. Law enforcement actions
4. Diplomatic efforts and outreach
5. Smarter regulatory scrutiny and international standard setting
6. Outreach to the private sector
7. Capacity building for other governments and the financial sector[87]

Current International Counterterrorism Financing Actions

Cutting funds to al-Qaeda and other terrorist organizations must be an international effort, if for no other reason than most assets used by terrorists are not under US control.[88] And there have been some successes. The US Department of Treasury states that $137 million in terrorist funds have been frozen, only $37 million of which were from the US. Eighty countries have created intelligence units to share information on terrorist financing and 173 countries have frozen terrorist assets.[89] Many international organizations have been working to halt terrorist financing, most notably the United Nations, but also the International Monetary Fund, the World Bank, and the Financial Action Task Force.

The United Nations has responded with a number of resolutions particularly dealing with UBL and al-Qaeda. UN Security Council Resolution (UNSCR) 1267, passed in October 1997 demanded the Taliban stop support for terrorism and turn UBL over to another country to bring him to justice, while UNSCR 1333 in December 2000 required all states to freeze all UBL and al-Qaeda's assets. UNSCR 1373, passed in the wake of 9/11 on September 28, 2001 called for all countries to "freeze without delay" all terrorist assets, to criminalize the provision of funds to terrorists, and ratify the International Convention for the Suppression of the Financing of Terrorism passed in 1999. The most recent is UNSCR 1455, passed in January 2003, which eliminated the previously required annual review of the terrorist asset freeze list.[90]

But cutting funds globally to minimize al-Qaeda's capabilities is not as easy as one might imagine. One man's terrorist can still be perceived as another man's freedom fighter, even if that individual is directly linked to UBL. There are a variety of reasons for this. One is a lack of international agreement on a definition of terrorism[91], and therefore, what organization's

funding should be hampered. For example, in the late 1990s, US Department of Treasury personnel began a dialog with Saudi Interior Ministry officials regarding "charities" funneling money to terrorists. Initially, the Saudis denied they had heard of some offshoots of al-Qaeda, such as Maktab al-Khadamat. When it came to Hamas funding, they stated that Hamas was a legitimate organization and therefore would not hamper its financing. Moreover, they argued that no one should expect Muslims to stop contribution to groups, for example in Chechnya.[92]

Despite this rough start, there have been some successes in this arena. Beginning before the recent rash of terrorist incidents in 2003,[93] but accelerating rapidly since then, Saudi Arabia has begun placing strict controls on charity accounts and pulling charity boxes out of retail establishments and mosques. This is particularly significant as charity provided by Saudis has been a primary source of funding for al-Qaeda.[94] The United Arab Emirates, Bahrain, Egypt, and Qatar have also passed anti-money laundering legislation and the Gulf Cooperation Council (GCC) members have agreed to increase oversight of their banking systems.[95]

On the other hand, the international community shows a weakening resolve to track down and halt al-Qaeda funding. United Nations reports have stated that stopping al-Qaeda's finances have failed, and that al-Qaeda maintains its access to cash. While many of al-Qaeda's western bank accounts are closed, there are still plenty of avenues from which it can fund itself, including the informal hawala money system, crime and drugs--requiring individual cells to find their own funding--and precious stones and other commodities.[96] For example, documents seized from a Taliban leader in Afghanistan state that he had received one million British pounds in June 2004 alone, much of that coming from al-Qaeda. Others allege that al-Qaeda is moving from financing through charities to heroin, as the flow of cash has been choked off.[97]

One area of cooperation which already exists is represented by the Financial Action Task Force on Money Laundering. Created by the Group of Eight (G-8) in 1989, it is currently composed of 33 states and numerous international organizations such as the United Nations, World Bank, and European Union. The Task Force has formed a list of 40 recommendations to combat money laundering, plus eight additional recommendations aimed specifically at terrorism which has been endorsed by over 130 states.[98] Such recommendations have become the de facto international money laundering standards. However, this organization reveals two specific weaknesses. First, while it does include the primary world financial centers, it is hardly universal, and even if it were so, many countries would still not be able to meet the proposed minimum standards for many years. For instance, Afghanistan will need decades to create a functioning banking system along with basic respect for rule of law. Second, FATF decisions are made by consensus.[99] As the FATF grows from its current 33 members, reaching consensus will prove increasingly difficult and could substantially weaken the effectiveness of the organization. If FATF will continue to allow new members into the organization as those states meet the standards, rules will have to be modified lest the organization later find itself hidebound by its inability to reach consensus. Nevertheless, FATF, with Financial Intelligence Units (FIUs) supplied by each state and providing for information exchange on the latest trends in money laundering, are a good start.

Working with FATF is the Financial Stability Forum (FSF) Offshore Working Group. Created by the G-8 in 1999, this group focuses exclusively on offshore financial centers. The group promotes information exchange and international cooperation in financial supervision.[100] The current "naming and shaming" of countries with weak financial laws is a good beginning. However, more must be done to ensure compliance with accepted bank standards. Also,

alternative economic arrangements must be found for many of these countries, which turned to banking in the first place because they lack other means to finance their governments.[101]

Much more work needs to be accomplished in regards to strengthening financial laws, particularly within the European Union. Suspicious Activity Reports filed by European banks are in low numbers. Border controls are lax and the stringent evidentiary standards required by some European legal systems make it exceedingly difficult to block accounts. Moreover, the European Union in particular lacks laws to allow the seizure or shutdown of shell companies, businesses, and properties as opposed to simple bank accounts. Additionally, there are legal difficulties when one owner is designated a sponsor of terror but other owners are not.[102] Finally, European countries have devoted few resources to tracking and combating the financing of terrorism. The European Commission only has one employee (and one part-time employee) to work on implementing financial sanctions, while the French Ministry of Finance only has two part time employees and the German Bundesbank only one.[103]

However, as difficult as it has been working with European governments, other regions' banking systems are even more open, particularly in the Middle East and Southeast Asia. These countries have only recently begun creating more stringent banking laws and instituting controls over charities, such as the May 16, 2002 "Abu Dhabi Declaration on Hawala" expressing concern about the "transparency and accountability in the hawala system and calling on countries to increase government supervision to prevent abuse of the system by criminal elements."[104]

Policy Recommendations

A recent UN report states that the world has done a poor job of shutting off al-Qaeda's access to cash. The report cites a number of reasons for this, including the difficulty of designing sanctions against organizations and individuals rather than states, al-Qaeda's changing tactics and organization, a lack of information shared amongst members, and that many states are either unwilling or unable to pass appropriate legislation and enforce it.[105] As one US official stated, "We started out well, picked all the low-hanging fruit, and then, as we have squeezed, they have simply moved on to different methods."[106] The fact that so little is coming to light indicates to officials al-Qaeda has shifted its money elsewhere and through new means.[107]

Brian Jenkins states, "In terms of intelligence, we need to be able to get smart fast. We need the capability for networked, multilateral threat analysis—comparable to "real-time intelligence on the battlefield"—to generate information that can be packaged and used quickly by a soldier in Afghanistan, a magistrate in France, a cop in Singapore, a Marine in Haiti. We do not yet have this capability."[108]

Combating terrorism on this scale requires departing from some established American understandings. First, the US must increasingly come to grips with the fact that the distinction between foreign and domestic issues has dramatically declined. Second, the issue between what is public versus private sector is gone as well.[109] US Treasury Department terrorism expert Juan Zarate testified that, "From our experience before and after September 11th, we know that terrorist financing is a complicated and multi-dimensional problem that both domestically and internationally implicates a range of legal, regulatory, financial, intelligence, and law enforcement interests. Consequently, no successful attack on the financial underpinnings of

terrorism may be advanced without coordinated interagency strategies on the use of legal, regulatory, private sector, law enforcement, diplomatic and intelligence-gathering tools required to combat this problem."[110]

Nevertheless, there is no one US government official mandated and authorized to disrupt terrorist financing,[111] and interagency cooperation is still lacking. While it has improved, particularly with the signing of the May 2003 Memorandum of Agreement between the Attorney General and Secretary of Homeland Security resolving jurisdictional issues,[112] much still needs to be done. The General Accounting Office (GAO) has noted that the FBI, the lead agency in domestic counterterrorism, still does not systematically collect or analyze how terrorists move their money,[113] nor has the Departments of Justice and Treasury developed plans to hamper the use of diamonds and gold to finance terrorist operations.[114] It remains to be seen whether the FBI's new Garden City Counterterrorism Lead Development Center will accomplish GAO's recommendation. Working with the IRS, the center is tasked to develop case knowledge, identify trends, and provide comprehensive data reports to those conducting counterterrorism financial investigations. Particularly in the case of charities, this organization is expected to use tax-exempt status and other tax-related information usually restricted from law enforcement agencies.[115]

Additionally, the Financial Crimes Enforcement Network (FINCen), a branch of the Treasury Department tasked as the US' financial intelligence unit, has been understaffed in such capacity.[116] It is also unclear how much cooperation exists between FINCen, which is assigned the strategic analysis, and the FBI, tasked with the actual counterterrorism investigations.

Internationally, groups such as FATF and FSF must work on three primary areas. First, they must increase capacity-building measures to assist countries who cannot meet the standards.

This may include improving the efficiency and effectiveness of criminal justice systems overall. Second, more must be done to curb corruption. Greater transparency will make it more difficult for terrorist organizations to gain access to financial systems. And third, multilateral agreements must be strengthened.[117] FATF recommendations should be made universal, more bilateral agreements with the United States signed, and channels left open to address new money laundering schemes dreamed up by terrorist and other criminal organizations.

Intelligence activities must continue to search for remaining accounts linked to UBL and al-Qaeda, whether those accounts are held by individuals, charities, or organizations, or countries. Moreover, the US must keep up the pressure for other countries to do the same. EO 13224 allows the public designation of terrorist-related entities and the blocking of their assets.[118] While the known accounts have been found and blocked, often with international agreement and cooperation, the hard part now begins. Additional resources are required to find further financial records and create enough evidence suitable for release to other countries in order to convince them to block such accounts.

However, as tempting as it may be to crack down on bank accounts at the first whiff of possible extremist involvement, use of this important tool by the US requires discretion. The Justice Department has reportedly seized at least 15 foreign bank accounts, as authorized under the USA PATRIOT Act Section 319, after convincing a judge the funds which were deposited overseas had been obtained illicitly. The money was seized from the banks' correspondent accounts in the United States, which were used by foreign financial institutions to do business in a country where they do not have branches. Already, diplomats from several states, including Switzerland, are voicing concerns.[119] According to former Secretary of the Treasury Robert Rubin, the US is perceived as the guarantor of the international financial system. Too much

covert "tinkering" could undermine the confidence others have in the US financial system, with tremendous repercussions for the entire global economic system.[120] In essence, UBL would have won by succeeding in indirectly bringing down the US economy, and with it, the world economy. This can be alleviated with good forensic investigation. Strong evidence must be declassified sufficiently to allow its presentation to other governments and financial institutions to allow them to shut down the accounts, so that the United States does not have to.

With this must come additional cooperation among countries. The Egmont Group and FATF represent a good beginning. The US Treasury Department's strategy of assessing countries' ability to comply with FATF standards and then providing priority technical assistance[121] must continue and receive priority attention. Moreover, more pressure must be put on states to abide by current UN Security Council resolutions. Reports state that only 83 countries have submitted the required reports on attacking terrorist financing and implemented the required travel ban, for example. And even those individuals and organizations named are often neither shut down nor arrested; they are simply left free to operate again under a new name. As an example, Yousef Nada, an Egyptian living in Switzerland, traveled to Liechtenstein in January 2003 to change the name of and then liquidate two companies targeted by the UN. When the UN discovered this and protested, the liquidation was halted. However, some of his businesses still continue to operate.[122]

Another successful strategy has been "naming and shaming," and this policy should certainly continue. In this case, institutions, individuals, and governments are threatened with "outing" regarding their support of terrorism as an inducement for them to clean up their financial systems. This might also cause terrorists to have to pull funds out of yet more banks for fear of detection of their operations.[123] So far, the threat of being named has acted as an

impetus for countries such as Nigeria and the Philippines to begin to clean up their financial systems.[124] However, gaping holes still exist, such as in Saudi Arabia, whose citizens are some of al-Qaeda's primary financial backers.

If threats of "naming and shaming" will not work, there is always the possibility of freezing a state's assets. For example, in 1999, the US imposed unilateral economic sanctions on the Taliban in Afghanistan, including freezing access to gold reserves worth $220 million held in the Federal Reserve. Ariana, Afghanistan's national airline, was also banned, thereby limiting al-Qaeda's ability to transport materiel, and Ariana's assets held in a Citibank branch in India were frozen.[125] Section 311 of the USA PATRIOT Act enables the US to freeze the ability of foreign financial institutions to operate in the United States if they are believed to be heavily implicated in money laundering. Most recently, the Commercial Bank of Syria and the Syrian Lebanese Commercial Bank were cut off from the US financial system by closing their corresponding accounts with all US financial institutions because they became a "primary money laundering concern," specifically in regards to supporting terrorism and laundering funds for Saddam Hussein.[126] The threat of sanctions under this section has caused some countries to change their banking laws.[127]

Technology and better information sharing are increasingly important. The "easy" tasks, such as freezing known bank accounts, have been accomplished. However, now we work in a "needle in a haystack" mode, where the US must search for individual bank accounts or a single individual in an immigration visa line. Only better data storage and retrieval, biometrics for accurate identification, improved data mining, and global information sharing can significantly reduce al-Qaeda's ability to operate.[128] Meanwhile, these issues must be balanced with human

rights and civil liberties, including the right to privacy, some constitutional issues, and a lack of cooperation by many US allies, not to mention adversaries.

Conclusion

The US cannot completely eliminate every vestige of al-Qaeda alone. As David Aufhauser, a top US Department of Treasury official was quoted in 2003, "Our economies are deliberately open and porous. The ways to game restrictions on the flow of capital are nearly infinite. Moreover, the challenge is worldwide in scope."[129] Russian Academy of Science Africa expert Alexei Vassiliev points out, "...since drug dealers have successfully evaded similar measures aimed at their activities and have still managed to launder approximately one trillion dollars over the past decade, it is doubtful that the channels used to finance terrorism can be entirely blocked."[130] The best the US can hope for is to contain al-Qaeda, much as the America did to the Soviet Union during the Cold War. Meanwhile, the US and its allies must wear down al-Qaeda's capabilities and lessen those sociological factors which contribute to its support as an ideology.[131] As pointed out in testimony by Juan Zarate, "As I have said before, ours is a long-term mission to save lives by denying the terrorists the funds they need to train, to plan, to travel, to hide, and to attack. By denying these terrorists dollars and yen, we are depriving them of bullets and bombs."[132]

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[118] *Terrorist Financing and Financial Crime.*
[119] Eric Lichtblau, "U.S. Cautiously Begins to Seize Millions in Foreign Banks," *New York Times*, May 30, 2003.
[120] Benjamin and Simon, *Age of Sacred Terror*. 270..
[121] *Terrorist Financing and Financial Crime.*
[122] Munoz, "Second Report of the Monitoring Group Established Pursuant to Resolution 1363 (2002) and 1455 (2003), on Sanctions against Al-Qaida, the Taliban and Individuals and Entities Associated with Them." 21-2. The companies to be liquidated were at-Taqwa Trade, Property and Industry Company, Ltd. (which was renamed Wallenberg SA) and Ba Taqwa for Commerce and Real Estate Company, Ltd. (renamed Hocberg SA). Nada applied to have himself appointed the liquidator of both companies. The Government of Switzerland has applied to the Monitoring Group (established by the UN Security Council in Resolution 1363 to monitor sanctions against al-Qaeda, the Taliban, and groups associated with them) to unfreeze some of the companies' assets to allow payment of taxes and attorney's fees. That request is reportedly still pending before that committee.
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[124] *Terrorist Financing and Financial Crime.*
[125] Benjamin and Simon, *Age of Sacred Terror*. 289.
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[127] *Daniel L. Glaser Testimony*. 7.
[128] Benjamin and Simon, *Age of Sacred Terror*. 403-4.
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